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PENNINGTON BIOMEDICAL RESEARCH FOUNDATION

2009 CONSOLIDATED FINANCIAL STATEMENTS

P&N Postlethwaite & Netterville

A Professional Accounting Corporation

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PENNINGTON BIOMEDICAL RESEARCH FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pennington Biomedical Research Foundation
Baton Rouge, Louisiana

We have audited the accompanying consolidated statements of financial position of the Pennington Biomedical Research Foundation and its subsidiary (collectively, the Foundation) as of June 30, 2009 and 2008, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Pennington Biomedical Research Foundation and its subsidiary as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included on pages 21 and 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Postlethwaite & Netterville

Baton Rouge, Louisiana
October 6, 2009

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PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

ASSETS

	2009	2008
ASSETS		
Cash and cash equivalents	$ 12,720	$ 9,305
Accounts receivable	6,081	42,002
Unconditional promises to give, net	220,804	112,401
Prepaid expenses	3,004	15,143
Office equipment (net of accumulated depreciation of $1,175 and $904 respectively)	2,220	2,491
Investments - unrestricted	2,361,065	2,806,629
Investments - temporarily restricted, permanently restricted, and funds held-in-custody	15,374,181	19,218,009
Investment in subsidiary	631	10,504
Annuity held by rabbi trust	832,835	847,219
Beneficial interest in split-interest agreements	708,091	690,243
Total assets	$ 19,521,632	$ 23,753,946

LIABILITIES AND NET ASSETS

	2009	2008
LIABILITIES		
Accounts payable	$ 248,102	$ 299,401
Accrued expenses and other liabilities	33,714	25,533
Deferred revenues and deposits	126,800	83,200
Retirement obligation	832,835	847,219
Funds held-in-custody	5,153,077	6,112,695
Total liabilities	6,394,528	7,368,048
NET ASSETS		
Unrestricted	1,192,355	1,388,752
Unrestricted - board designated	1,062,928	1,275,000
Temporarily restricted	2,699,228	5,616,723
Permanently restricted	8,172,593	8,105,423
Total net assets	13,127,104	16,385,898
Total liabilities and net assets	$ 19,521,632	$ 23,753,946

The accompanying notes are an integral part of these statements.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Contributions	$ 862,435	$ 861,706	$ 30,125	$ 1,754,266
Investment income (loss) allocation	(287,370)	(2,117,824)	-	(2,405,194)
Management fee income	150,586	-	-	150,586
Change in value of split-interest agreement	-	-	37,045	37,045
	725,651	(1,256,118)	67,170	(463,297)
Net assets released by satisfaction of program restrictions	1,661,377	(1,661,377)	-	-
	2,387,028	(2,917,495)	67,170	(463,297)
EXPENSES AND LOSSES				
Program services	1,740,912	-	-	1,740,912
Management and general	400,233	-	-	400,233
Development	644,480	-	-	644,480
	2,785,625	-	-	2,785,625
Loss from subsidiary	9,872	-	-	9,872
CHANGE IN NET ASSETS	(408,469)	(2,917,495)	67,170	(3,258,794)
Net assets, beginning of period (as restated)	2,663,752	5,616,723	8,105,423	16,385,898
NET ASSETS, END OF PERIOD	$ 2,255,283	$ 2,699,228	$ 8,172,593	$ 13,127,104

The accompanying notes are an integral part of these statements.

2008			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 1,107,286	$ 687,713	$ 692,079	$ 2,487,078
229,587	2,038	-	231,625
125,511	-	-	125,511
-	-	-	-
1,462,384	689,751	692,079	2,844,214
1,387,374	(1,387,374)	-	-
2,849,758	(697,623)	692,079	2,844,214
1,387,373	-	-	1,387,373
517,503	-	-	517,503
672,498	-	-	672,498
2,577,374	-	-	2,577,374
109,217	-	-	109,217
163,167	(697,623)	692,079	157,623
2,500,585	6,314,346	7,413,344	16,228,275
$ 2,663,752	$ 5,616,723	$ 8,105,423	$ 16,385,898

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009			
	Program Services	Management and General	Development	Total
Bank charges	$ 497	$ 10,178	$ -	$ 10,675
Bad debt expense	-	40,000	-	40,000
Business development	-	10,626	152,296	162,922
Contributions/donations	203,179	-	-	203,179
Depreciation	-	271	-	271
Dues and subscriptions	1,379	10,619	4,127	16,125
Insurance	-	18,192	-	18,192
Investment expense	203,285	6,568	-	209,853
Lobbying/governmental relations	-	18,682	-	18,682
Meetings and symposiums	150,732	2,134	303	153,169
Miscellaneous	3,615	726	7,853	12,194
Payroll taxes and benefits	137,603	23,905	66,878	228,386
Postage	72	4,820	1,391	6,283
Printing	58,883	6,610	-	65,493
Professional fees	103,555	39,841	54	143,450
Operations and maintenance	32,936	6,996	1,186	41,118
Research supplies and equipment	371,456	-	-	371,456
Salaries	431,605	189,777	398,830	1,020,212
Sponsorships	-	-	-	-
Supplies	32	5,213	3,432	8,677
Taxes	-	1,810	61	1,871
Telephone	61	2,013	1,711	3,785
Training	-	-	209	209
Travel	42,022	1,252	6,149	49,423
	$ 1,740,912	$ 400,233	$ 644,480	$ 2,785,625

The accompanying notes are an integral part of these statements.

2008			
Program Services	Management and General	Development	Total
$ 1,602	$ 8,426	$ -	$ 10,028
-	100,000	-	100,000
-	9,929	211,983	221,912
500	-	-	500
-	271	-	271
2,491	9,803	4,158	16,452
-	18,378	-	18,378
197,998	11,177	-	209,175
-	57,424	99	57,523
325,142	1,370	577	327,089
3,864	1,012	5,355	10,231
131,975	22,620	58,417	213,012
663	5,736	1,629	8,028
208	5,607	1,208	7,023
4,683	39,661	27	44,371
11,871	3,798	5,469	21,138
196,781	-	-	196,781
456,527	156,326	367,538	980,391
1,000	-	-	1,000
5,711	5,701	2,899	14,311
-	57,919	-	57,919
-	1,259	2,283	3,542
805	159	4,772	5,736
45,552	927	6,084	52,563
$ 1,387,373	$ 517,503	$ 672,498	$ 2,577,374

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (3,258,794)	$ 157,623
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Loss from investment in subsidiary	9,872	109,217
Depreciation	271	271
Bad debt expense	40,000	100,000
Realized losses (gains) on sales of investment securities	2,123,946	(784,236)
Unrealized loss (gain) on investment securities	852,533	1,088,148
Unrealized gain on beneficial interest in split-interest agreement	(37,045)	-
Distributions received from beneficial interest in split-interest agreement	49,322	-
Beneficial interest in split-interest agreement	(30,125)	(690,243)
Changes in operating assets and liabilities:		
Accounts receivable	(55,589)	(23,894)
Unconditional promises to give	(103,050)	209,003
Discount on unconditional promises to give	(5,353)	(4,485)
Prepaid expenses	12,140	12,518
Accounts payable	40,211	(27,456)
Accrued expenses and other liabilities	8,181	501
Deferred revenues and deposits	43,600	55,290
Net cash provided by (used in) operating activities	(309,880)	202,257
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of office equipment	-	(2,038)
Member distributions (contributions)	(40,000)	(25,000)
Proceeds from sales of investments	12,286,095	12,509,527
Purchases of investments	(10,973,182)	(12,370,273)
Net cash provided by investing activities	1,272,913	112,216
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in funds held-in-custody	(959,618)	(430,675)
Net cash used in financing activities	(959,618)	(430,675)
Net increase (decrease) in cash and cash equivalents	3,415	(116,202)
Cash and cash equivalents at beginning of period	9,305	125,507
Cash and cash equivalents at end of period	$ 12,720	$ 9,305

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2009	2008
Cash paid during the year for income taxes	$ 1,810	$ 57,914

The accompanying notes are an integral part of these statements.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

The Pennington Biomedical Research Foundation (the Foundation) is a non-profit charitable organization dedicated to providing the Pennington Biomedical Research Center (the Center) with individual, foundation and corporate support. The Center's mission is to improve health through research and education in nutrition and preventive medicine. As such, the Center has made many significant contributions to disease prevention, health, and longevity with particular focus on diabetes, cardiovascular disease, obesity, cancer and dementia.

During the year ended December 31, 1996, Pennington Discoveries, Inc. (PDI) was organized as a separate for-profit organization to commercialize and further develop technologies and other intellectual property originating from the Pennington Biomedical Research Center. In 2002, PDI entered into a partnership with NMCT USA, Inc. to form Pennington Management of Clinical Trials, LLC (PMCT). PDI is a 20% owner of PMCT. During the prior fiscal year, PMCT discontinued its business operations and is currently liquidating its remaining assets.

Consolidation

The Foundation's consolidated financial statements include the accounts of Pennington Discoveries, Inc. a wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Income Taxes

The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Internal Revenue Code.

Pennington Discoveries, Inc. is a for-profit organization and is required to pay income taxes as determined by the Internal Revenue Code. At June 30, 2009, Pennington Discoveries had a net operating loss (NOL) carryforward of approximately $71,000 expiring in the years 2017 – 2027 from its operations; therefore, there was no income tax payable recorded in the accompanying consolidated financial statements. As of June 30, 2009, the deferred tax asset created by net operating loss carryforwards was offset by a valuation allowance equal to the amount of the deferred tax asset given its realization is not probable. Deferred tax assets are subject to a valuation allowance if their realization is less than fifty percent probable.

1. Summary of Significant Accounting Policies (continued)

Income Taxes Income Taxes (continued)

FASB Interpretation No. 48

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109"). FIN 48 clarifies the application of SFAS 109 by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements. Additionally, FIN 48 provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In December, 2008, the FASB issued FASB Staff Position (FSP) FIN 48-3 which permits an entity within its scope to defer the effective date of FIN 48 to its annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected to defer the application of FIN 48 for the year ending June 30, 2009. The Foundation evaluates its uncertain tax positions using the provisions of FASB 5, *Accounting for Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Management has not completed its evaluation of the impact of this standard; however, the Foundation does not expect the impact will be material to the consolidated financial statements.

Reclassifications

Certain amounts on the June 30, 2008 financial statements have been reclassified to conform with the June 30, 2009 financial statement presentation. During the current year, management reassessed classifications and determined there was a misclassification between temporarily restricted and permanently restricted net assets in prior years. Beginning net assets for the period ended June 30, 2008 were restated which resulted in a reduction of permanently restricted net assets and increase in temporarily restricted net assets by a total of $51,212.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Deferred Revenues and Deposits

Deferred revenues and deposits include sponsorship revenues for various fundraising events, such as Soaring to New Heights, which have been received in advance of the events.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Cash Flow Statements

For purposes of the cash flow statements, cash and cash equivalents includes operating funds on deposit at various financial institutions.

Office Equipment

Office equipment is stated at historical cost. Additions, renewals, and betterments that extend the lives of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Provisions for depreciation are computed using accelerated methods over the estimated useful lives.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Investments

The Foundation adopted Statement of Financial Accounting Standards ("FAS") 157, *Fair Value Measurements*, as of January 1, 2008. FAS 157 defines fair value as the price received to transfer an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date reflecting the highest and best use valuation concepts. FAS 157 establishes a framework for measuring fair value by creating a hierarchy of fair value measurements that distinguishes market data between observable independent market inputs and unobservable market assumptions by the reporting entity. FAS 157 further expands disclosures about such fair value measurements. FAS 157 applies broadly to most existing accounting pronouncements that require or permit fair value measurements (including both financial and non-financial assets and liabilities) but does not require any new fair value measurements.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, "Effective Date of FASB Statement No. 157" (FSP FAS 157-2), which delayed the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. As of July 1, 2009, the Foundation will adopt this guidance for nonrecurring fair value measurement disclosures of nonfinancial assets and liabilities. As of June 30, 2009, management does not believe the adoption of FSP FAS 157-2 would have a material impact on the Foundation's results of operations, cash flows or financial positions.

On October 10, 2008, the FASB issued FSP FAS No. 157-3, "Fair Value Measurements" (FSP FAS 157-3), which clarified the application of SFAS No. 157 in an inactive market and provides an example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The adoption of this standard did not have a material impact on the Foundation's results of operations, cash flows or financial positions.

1. Summary of Significant Accounting Policies (continued)

Promises to Give

Unconditional promises to give are recognized as revenue in the period the promise is received. Promises to give are recorded at their realizable value if they are expected to be collected in one year or at fair value if they are expected to be collected in more than one year.

Statements of Functional Expenses

The costs of providing for the various programs and other activities of the Foundation have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting benefits based on management's estimates.

Concentrations of Credit Risk

The Foundation's investments are secured by SIPC (Securities Investor Protection Corporation). Any investment balances over the SIPC coverage are insured by private insurance of the investment custodian. SIPC and private insurance do not insure the quality of investments or protect against losses from fluctuating market values.

Split-interest Agreements

Irrevocable split-interest agreements are recorded as revenue when the trust agreements are executed. Revenue from the split-interest agreements is based on the present value of the expected cash flows to be received by the Foundation over the term of the agreement. Changes in the value of the split interest agreement are recorded in the statements of activities and classified as unrestricted, temporarily restricted or permanently restricted depending on the classification used when the contribution was originally recorded.

2. Retirement Contributions and Expense

The Foundation makes an annual contribution to the 403(b) retirement plan for eligible employees. The amount of the contribution is equal to 100% of an eligible employees' contribution up to 5% of annual compensation. The eligibility requirement for employer matching is one full year of service which must consist of a minimum of 1,000 hours. Contributions for the years ended June 30, 2009 and 2008 totaled approximately $20,000 and $17,000, respectively.

3. Investments

Investments in debt and equity securities with readily determinable fair values are stated at their estimated fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for discussion of fair value measurements. The asset allocation of the Foundation's portfolio involves exposure to a diverse set of markets. The investments within these markets involve various risks such as interest rate, market, and credit risks. The Foundation anticipates that the value of its investments may, from time to time, fluctuate substantially as a result of these risks.

3. Investments (continued)

Investment earnings are allocated to unrestricted, temporarily restricted and permanently restricted net assets based on donor restrictions for certain permanently endowed funds and based on policies approved by the Board of Directors for certain non-endowed funds. The Foundation allocates investment activity to the pooled endowed investments based on the average daily balance of each project. A spending allocation approved by the Board of Directors is made each year to the funds.

The investments of the Endowed Professorship Programs and the Endowed Chairs for Eminent Scholars Programs are maintained and managed in brokerage accounts in compliance with the Board of Regent's investment policy.

Investments at fair value at June 30, 2009 and 2008 were comprised of the following:

	2009	2008
Equities	$ 4,768,248	$ 6,305,725
Domestic fixed income securities	6,407,816	3,194,231
Hedge fund of funds	1,759,996	4,171,465
Real estate investment trust	754,157	1,527,146
Convertible bonds	2,277,607	2,609,827
Money market funds	1,767,422	3,459,263
International fixed income securities	-	756,981
	$ 17,735,246	$ 22,024,638

Investment earnings were comprised of the following for the years ended June 30, 2009 and 2008:

	2009	2008
Interest income	$ 70,120	$ 75,444
Dividends	501,165	460,093
Realized gains (losses) on sales of investments	(2,123,946)	784,236
Unrealized (loss) gains on investments	(852,533)	(1,088,148)
	$ (2,405,194)	$ 231,625

4. Fair Value of Financial Instruments

Effective for the fiscal year ended June 30, 2009, the Foundation adopted SFAS 159 and SFAS 157, *The Fair Value Option for Financial Assets and Financial Liabilities and Fair Value Measurements*. SFAS 157 clarifies the definition of fair value and establishes a frame work for measuring fair value. The Foundation did not elect the fair value option on any items under SFAS No. 159, which would have allowed the Foundation to mark any assets or liabilities accounted under the standard to fair value each period through an adjustment to earnings. The Foundation, in accordance with Financial Accounting Standards Board Staff Position No. 157-2 *The Effective Date of FASB No. 157*, will defer application of SFAS No. 157 for nonfinancial assets and liabilities until the fiscal year beginning July 1, 2009.

4. Fair Value of Financial Instruments (continued)

In addition to defining fair value, SFAS No. 157 expands the disclosure requirements regarding fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into 3 levels, based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of assets or liabilities.

- Level 3 – inputs are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Fair Value of Assets Measured on a Recurring Basis

The Foundation's investments in securities with readily determinable fair values are recorded at fair value based on quoted market prices. For those investments, where quoted prices are unavailable, management estimates fair value based on quoted prices for similar instruments with consideration of actively quoted interest rates, credit ratings and spreads, prepayment models, and collateral data. The Foundation utilizes several externally managed funds of funds for private equity, venture capital, and hedge funds, and as with these types of investments, quoted prices are often unavailable and pricing inputs are generally unobservable. The Foundation relies on the valuation procedures and methodologies of the external managers hired specifically to invest in such securities or in strategies which employ such securities. The application of those valuation procedures and methodologies are borne out in each manager's SFAS 157 compliant annual audited financial statements and are monitored through the Foundation's reporting period of June 30, 2009.

4. Fair Value of Financial Instruments (continued)

The following table presents the fair value at June 30, 2009, for each of the fair-value hierarchy levels, of the Foundation's financial assets and liabilities that are measured at fair value on a recurring basis.

	Level 1	Level 2	Level 3
Equities	$4,768,248	$ -	$ -
Domestic fixed income	6,407,816	-	-
Hedge fund of funds	-	-	1,759,996
Real estate investment trust	754,157	-	-
Money market funds	1,767,422	-	-
Convertible bonds	-	2,277,607	-
Beneficial Interest in Split Interest Agreements	470,803	-	237,288
Total	$14,168,446	$2,277,607	$1,997,284

The following table presents the changes in fair value for the year ended June 30, 2009, in Level 3 instruments that are measured at fair value on a recurring basis.

	Hedge Fund Of Funds	Beneficial interest in Split Interest Agreement	Total
Balance, July 1, 2008	$4,171,465	$241,585	$4,413,050
Net Purchases & Sales	(1,540,000)	(17,263)	(1,557,263)
Unrealized gains (losses)	(871,469)	12,966	(858,503)
Balance, June 30, 2009	$1,759,996	$237,288	$1,997,284

5. Funds Held in Custody and Permanently Restricted Net Assets

Included in investments at June 30, 2009 and 2008, were funds held in custody at local banks, which represent matching funds received from the State of Louisiana. Investments also include private donations which are permanently restricted by donors.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Funds Held in Custody and Permanently Restricted Net Assets (continued)

The Endowed Chairs for Eminent Scholars Program requires a $600,000 private donation and a matching $400,000 gift from the State of Louisiana, making a total endowment of $1,000,000 per program. The Eminent Scholars Program requires a $60,000 private donation and a $40,000 matching gift from the State of Louisiana, making a total endowment of $100,000. Total funds held in custody were as follows:

	2009	2008
State Matching Funds	$ 5,153,077	$ 6,076,672
Other	-	36,023
	$ 5,153,077	$ 6,112,695

Permanently restricted net assets consist of private donations and were as follows as of June 30:

	2009	2008
Private donations	$ 7,464,502	$ 7,415,180
Beneficial interest in split interest agreements	708,091	690,243
	$ 8,172,593	$ 8,105,423

6. Unrestricted Net Assets-Board Designated

The Foundation maintains a Board Designated unrestricted fund balance of $1,062,928 and $1,275,000 as of June 30, 2009 and 2008 respectively, for use of future PBRC projects. These funds will remain within the Foundation and will be distributed to or on behalf of the Center at various times in the near future.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2009 and 2008 were available for specific nutritional research programs and other nutritional research programs being conducted at the Pennington Biomedical Research Center.

	2009	2008
Endowed Chairs & Professorships	$ 347,606	$ 3,023,178
Specific Research Projects	596,022	421,108
Faculty Research Support	1,755,600	2,172,437
Total Temporarily Restricted Net Assets	$ 2,699,228	$ 5,616,723

8. Net Assets Released From Restrictions

Net assets released from donor restrictions for incurring program related expenses satisfying the restricted purposes for the years ended June 30, 2009 and 2008, were as follows:

	2009	2008
Endowed Chairs & Professorships	$ 557,515	$ 729,906
Specific Research Projects	521,896	498,704
Faculty Research Support	581,966	158,764
Total Restrictions Released	$ 1,661,377	$ 1,387,374

9. Endowed Net Assets

The primary objective of the Foundation's investment and spending policies for its endowed assets is to be a source of capital for the current and future support of the Center. Implicit in this objective is the financial goal of preserving and enhancing the inflation-adjusted earning and purchasing power of assets. The long-term investment objective of the endowed portfolio is to attain an average annual real total return of at least 5.0% over time. It is also the intent of the policy to earn the highest rate of return over the long term, consistent with prudent funds management, and to provide adequate distribution of income to the Center, within policy and budget guidelines.

Certain endowed funds are provided by the State as match to qualifying private endowed contributions and are managed under agreement with the Louisiana State University System for its benefit. These endowed assets are further subject to the investment and spending policies established by the Louisiana Board of Regents, which has statutory authority to administer the matching funds program.

The net asset composition by type of fund was as follows as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment	$ -	$ 384,669	$ 8,172,593	$ 8,557,262

Changes in endowment net assets were as follows as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2008	$ -	$ 3,022,963	$ 8,105,423	$ 11,128,386
Investment Return:				
Investment income	-	(1,238,541)	-	(1,238,541)
Net appreciation (depreciation)	-	(842,238)	37,045	(805,193)
Contributions	-	-	30,125	30,125
Appropriation of endowment assets for expenditure	-	(557,515)	-	(557,515)
Endowment net assets, June 30, 2009	$ -	$ 384,669	$ 8,172,593	$ 8,557,262

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Endowed Net Assets (continued)

A spending rate is determined by the Foundation Board of Directors on an annual basis, with consideration given to the market conditions, the spending levels of peer institutions and the level of real return after spending measured over a rolling five year time period. The spending rate approved by the Board is applied to the five year average market value of the investment pool of endowed assets. The objective is to provide relatively stable spending allocations. The net spending rate approved by the Board of Directors for the June 30, 2009, allocation was 4.5%. In accordance with the Board's policies, no portion of the corpus (original amount of donation) of the endowed assets shall be allocated for program spending.

The Louisiana Board of Regents spending policy dictates that no portion of the inflation-adjusted corpus, as defined by the Regents, is to be allocated for spending. However, effective July 1, 2008, the Regents temporarily suspended the inflation-adjusted corpus rule until June 30, 2010.

Guided by the philosophy that asset allocation is the most significant determinant of long-term investment return, the Foundation's Board of Directors establishes asset allocation targets for its pool of endowed assets in order to achieve the total return objectives of its investment policy within acceptable risk levels. Target ranges are established within asset classes, and investments are diversified in order to minimize the risk of large losses.

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level the donor or the Board of Regents policy requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in temporarily restricted net assets were $341,289 and $0 as of June 30, 2009 and June 30, 2008 respectively. These deficiencies resulted from unfavorable market fluctuations. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in temporarily restricted net assets.

10. Investment in Joint Venture and Note Payable

Effective April 5, 2002, Pennington Discoveries, Inc. (PDI) became a member of Pennington Management of Clinical Trials, L.L.C. (Joint Venture). This limited liability company was formed for the purpose of conducting, managing and administering clinical trials in nutrition studies, studies pertaining to weight characteristics, and studies in the field of obesity and its associated diseases. PDI has a 20% interest in the Joint Venture and the other partner has an 80% interest. PDI and the Foundation are not obligated to fund any losses that exceed its cash contributions to the Joint Venture. For the years ended June 30, 2009 and 2008, a net gain (loss) was generated by the Joint Venture; therefore, 20% of the net gain (loss) was recorded in the accompanying consolidated financial statements. The Joint Venture had discontinued business operations as of June 30, 2008 and is currently liquidating its remaining assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Investment in Joint Venture and Note Payable (continued)

Pertinent financial information for the Joint Venture as of and for the years ended June 30, 2009 and 2008 is as follows (unaudited):

Balance sheet	2009	2008
Assets:		
Cash	$ 2,678	$ 33,277
Other current assets	-	23,218
Property and equipment, net	478	1,830
Total assets	$ 3,156	$ 58,325
Liabilities and members' equity:		
Accounts payable and other liabilities	$ -	$ 5,807
Members' capital	3,156	52,518
Total liabilities and members' capital	$ 3,156	$ 58,325
Income statement		
Contract revenue and other income	$ 40,027	$ 715,389
Cost of revenues	(-)	(234,253)
Other costs and expenses	(89,389)	(1,026,717)
Net income (loss)	($ 49,362)	($ 545,581)

11. Commitments

In 1999, the Foundation purchased an annuity to fund the retirement obligation of the former director of the Center. The annuity's value and corresponding retirement obligation were approximately $833,000 at June 30, 2009 and $847,000 at June 30, 2008.

In May 2006, the Foundation committed up to $100,000 per year to the Pennington Biomedical Research Center for faculty salary support for the current Executive Director. This level of annual support is to be instituted in late 2009 or early 2010 upon the resignation of the current Executive Director and his re-appointment to a full-time research faculty position at the Center.

12. Related Party Transactions

The Pennington Biomedical Research Foundation provides accounting services and administrative support to the Pennington Medical Foundation (PMF) and to PMCT. For the year ended June 30, 2009, PMF and PMCT paid the Foundation $59,076 and $0, respectively for these services. For the year ended June 30, 2008, PMF and PMCT paid the Foundation $54,912 and $16,160, respectively for these services. The amounts owed from PMF at June 30, 2009 and 2008 for these types of services were $5,095 and $4,819, respectively. There were no amounts owed from PMCT at June 30, 2009 or 2008.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Related Party Transactions (continued)

The Pennington Biomedical Research Foundation operates the Pennington Residence Center on behalf of PMF at no explicit charge. In exchange, PMF provides office space and occupancy costs to the Foundation for its use. Each quarter, the Foundation remits 100% of net residence center revenues to PMF. For the year ended June 30, 2009 and 2008, the Foundation remitted $43,686 and $38,940 to PMF for net residence center revenues. The amounts owed to PMF at June 30, 2009 and 2008 for the residence center were $9,887 and $11,881, respectively.

The Foundation also has certain transactions in the normal course of operations with the Pennington Biomedical Research Center (the Center). The transactions consist of research support for salaries, research equipment, and supplies, which are processed by the Center. For the years ended June 30, 2009 and 2008, the Foundation paid to or paid on behalf of the Center $1,661,377 and $1,387,374, respectively. The amount owed to the Center at June 30, 2009 and 2008 for these types of expenses was $199,309 and $256,361, respectively.

13. Unconditional Promises to Give

Unconditional promises to give at June 30, 2009 and 2008 were as follows:

	2009	2008
Promises to give expected to be collected in:		
Less than one year	$ 92,050	$ 67,000
One to five years	138,000	50,000
More than five years	10,000	20,000
	240,050	137,000
Less discount on promises to give	(19,246)	(24,599)
Net unconditional promises to give	$ 220,804	$ 112,401

The discount rate used in discounting unconditional promises to give was 4.70% as of June 30, 2009 and 2008.

14. Split-Interest Agreements

The Foundation is the irrevocable beneficiary of two split-interest agreements, related to a charitable lead trust and a charitable remainder trust, under various terms and conditions. The funds are held and administered by unrelated third party trustees. The Foundation's interests in the funds held by the trustee are measured at present value and are recorded at fair market value in the statement of financial positions as beneficial interests in split-interest agreements.

For the charitable lead trust, the discount rate used in the present value calculation for future payments is the prevailing rate of interest for similar types of high quality, fixed income investments. The discount rate used for 2009 was 5.78% and the remaining term of the agreement is approximately 20 years.

14. Split-Interest Agreements (continued)

For the charitable remainder trust, the donor is the sole income beneficiary for life, with the Foundation receiving the principal amount of the trust upon the donor's death. The discount rate used in the present value calculation for the future payment is the ten year treasury-bond rate at June 30, 2009. The discount rate used for 2009 was 3.6% and the estimated remaining term of the agreement was approximately 13 years.

Contribution revenue for these split-interest agreements for the years ended June 30, 2009 and June 30, 2008 was $30,125 and $691,104, respectively. As of June 30, 2009 and 2008, the fair market value of the beneficial interests was $708,091 and $690,243, respectively. The Foundation received distributions from the charitable lead trust of $49,322 and $861 for the years ended June 30, 2009 and 2008, respectively.

As of June 30, 2009, trust distributions are expected to be received as follows:

Less than one year	$ 46,102
One to five years	208,198
More than five years	971,148
	1,225,448
Less: Discount to net present value	(517,357)
Beneficial interest in split-interest agreements	$ 708,091

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

ASSETS

	Pennington Biomedical Reasearch Foundation	Pennington Discoveries, Inc.	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	$ 6,996	$ 5,724	$ -	$ 12,720
Accounts receivable	6,081	-	-	6,081
Unconditional promises to give, net	220,804	-	-	220,804
Prepaid expenses	3,004	-	-	3,004
Office equipment (net of accumulated depreciaion of $1,175)	2,220	-	-	2,220
Investments - unrestricted	2,361,065	-	-	2,361,065
Investments - temporarily restricted, permanently restricted, and funds held-in-custody	15,374,181	-	-	15,374,181
Investment in subsidiary	6,309	631	(6,309)	631
Annuity held by rabbi trust	832,835	-	-	832,835
Beneficial interest in split-interest agreements	708,091	-	-	708,091
Total assets	$ 19,521,586	$ 6,355	$ (6,309)	$ 19,521,632

LIABILITIES AND NET ASSETS

LIABILITIES				
Accounts payable	$ 248,056	$ 46	$ -	$ 248,102
Accrued expenses and other liabilities	33,714	-	-	33,714
Deferred revenues and deposits	126,800	-	-	126,800
Retirement obligation	832,835	-	-	832,835
Funds held-in-custody	5,153,077	-	-	5,153,077
Total liabilities	6,394,482	46	-	6,394,528
NET ASSETS				
Unrestricted	1,192,355	6,309	(6,309)	1,192,355
Unrestricted - board designated	1,062,928	-	-	1,062,928
Temporarily restricted	2,699,228	-	-	2,699,228
Permanently restricted	8,172,593	-	-	8,172,593
Total net assets	13,127,104	6,309	(6,309)	13,127,104
Total liabilities and net assets	$ 19,521,586	$ 6,355	$ (6,309)	$ 19,521,632

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Pennington Biomedical Research Foundation	Pennington Discoveries, Inc.	Eliminations	Consolidated
SUPPORT AND REVENUES				
Contributions	$ 1,754,266	$ -	$ -	$ 1,754,266
Investment income (loss) allocation	(2,405,194)	-	-	(2,405,194)
Management fee income	150,586	-	-	150,586
Change in value of split-interest agreement	37,045	-	-	37,045
Forgiveness of debt	-	472,398	(472,398)	-
	(463,297)	472,398	(472,398)	(463,297)
EXPENSES AND LOSSES				
Program services	1,740,912	-	-	1,740,912
Management and general	357,453	42,780	-	400,233
Development	644,480	-	-	644,480
	2,742,845	42,780	-	2,785,625
Gain (loss) from subsidiary	419,747	(9,872)	(419,747)	(9,872)
CHANGE IN NET ASSETS	(2,786,395)	419,746	(892,145)	(3,258,794)
Net assets, beginning of period	16,385,898	(413,437)	413,437	16,385,898
NET ASSETS, END OF PERIOD	$ 13,599,503	$ 6,309	$ (478,708)	$ 13,127,104